(2)

No. 84-178

In the Supreme Court of the United States

October Term, 1984

TECHNICAL DEVELOPMENT CORPORATION,

Petitioner,

vs.

BECKMAN INSTRUMENTS, INC.,

Respondent.

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

Sheldon Karon
Attorney for Respondent

Of Counsel:
Richard L. Horn
Thomas D. Rosenwein
Miriam Farkas
Karon, Morrison & Savikas, Ltd.
5720 Sears Tower
233 South Wacker Drive
Chicago, Illinois 60606
(312) 876-6000

Reginald K. Bailey
Clemens Hufmann
Mason, Kolehmainen, Rathburn & Wyss
20 North Wacker Drive
Suite 4200
Chicago, Illinois 60606

William H. May
2500 Harbor Boulevard
Fullerton, California 92634

UNITED STATES LAW PRINTING CO., CHICAGO, ILLINOIS 60618 (312) 525-6581

20pp

QUESTION PRESENTED

Should this Court grant certiorari when the decision of the Court of Appeals for the Seventh Circuit was based upon an interpretation of the contract between the parties, permitting Beckman Instruments, Inc. ("Beckman") to properly terminate a patent sublicense agreement with Petitioner?

RULE 28.1 DECLARATION

Respondent Beckman Instruments, Inc., during the course of the proceedings below, was acquired by SmithKline Corporation and the resulting company has been renamed SmithKline Beckman Corporation.

Respondent has no other affiliates or subsidiaries.

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Statutes

Treatises

In the
Supreme Court of the United States

October Term, 1984

No. 84-178

TECHNICAL DEVELOPMENT CORPORATION,

Petitioner,

vs.

BECKMAN INSTRUMENTS, INC.,

Respondent.

BRIEF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

OPINIONS AND JUDGMENTS DELIVERED BELOW

The opinion of the Court of Appeals for the Seventh Circuit is now officially reported at 730 F.2d 1076 (7th Cir. 1984). The Seventh Circuit affirmed and adopted the opinion of the District Court for the Northern District of Illinois, Eastern Division, granting judgment to Respondent, which is reprinted in the same volume following the Seventh Circuit opinion.[1] The order of the Court of Appeals for the Seventh Circuit denying rehearing is not officially reported.

---

[1] Those opinions are reprinted in the Appendix to Petition for Certiorari, as is the sublicense agreement between the parties. References to that Appendix in this brief shall be "A. ----."

STATUTE INVOLVED

Although no federal statute is directly involved, 35 U.S.C. § 271(c) was employed by the courts below as an aid in interpreting the contract between the parties. Section 271(c) provides:

> Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

STATEMENT OF THE CASE

A. Proceedings Below

This declaratory judgment action was brought by Respondent Beckman against Petitioner Technical Development Corporation ("TDC") in the District Court pursuant to 28 U.S.C. §1332 and 1337. (A. 36a-44a)[2] The

---

[2] Count I of the complaint was the only count litigated by the parties. Count I sought a declaration of lawful termination of the sublicense agreement between the parties, and subject matter jurisdiction was based upon diversity of citizenship (28 U.SC. §1332). Count II sought a declaration that the agreement violated Sections 1 and 16 of the Sherman and Clayton Acts, respectively, in the event that termination of the agreement in accordance with Beckman's interpretation was not declared lawful, and jurisdiction was based upon 28 U.S.C. §1337. Count III, phrased in the alternative to Count II, sought a declaration of patent misuse in the event that termination of the agreement by Beckman was not declared lawful. Jurisdiction of Count III was based upon diversity of citizenship (28 U.S.C. §1332). TDC counterclaimed for a declara-

(footnote continued)

gravamen of the suit was that Beckman had lawfully terminated a patent sublicense agreement, and accordingly had no further obligation to pay royalties thereunder. Upon cross-motions for summary judgment, Judge Prentice H. Marshall of the Northern District of Illinois, Eastern Division, found that the terms of the sublicense agreement were "quite straight forward," that Beckman had lawfully terminated the agreement and that, accordingly, Beckman had no further royalty obligation.

TDC appealed from the judgment in favor of Beckman to the Seventh Circuit Court of Appeals. That Court, in an unpublished order, reversed the grant of summary judgment, holding:

> Although we cannot say that the interpretation of the agreement adopted by the District Court is erroneous, we find the agreement ambiguous. TDC, therefore, was entitled to offer extrinsic evidence as an aid to the court's interpretation.

Upon remand, Judge James B. Moran of the Northern District of Illinois, Eastern Division, conducted the trial, heard the testimony of witnesses, and reviewed the exhibits. In his Memorandum and Order entered December

---

(footnote continued)

tory judgment that the agreement remained in force despite Beckman's attempt to terminate it. Jurisdiction of the counterclaim was based upon §1332.

In its initial brief in the Seventh Circuit, TDC characterized the jurisdiction of the district court as "invoked under 28 U.S.C. §1332 and 28 U.S.C. §1337." Until TDC's petition for rehearing before the Seventh Circuit Court of Appeals and its petition for certiorari in this Court, TDC never considered this case to involve a federal question under the patent statutes.

20, 1982, he granted judgment to Beckman, confirming that the extrinsic evidence supported Judge Marshall's earlier interpretation of the sublicense agreement. (A. 6a-19a)

On March 22, 1984, the Court of Appeals for the Seventh Circuit affirmed the District Court's judgment and findings that Beckman had properly terminated the sublicense agreement. (A. 1a-5a)

B. The Sublicense Agreement

The dispute centered upon a patent sublicense agreement dated August 8, 1961 between TDC, as sublicensor, and Beckman, as sublicensee. (A. 22a-35a) Pursuant to the terms of the sublicense agreement, TDC granted sublicenses to Beckman with respect to certain patents and patent applications exclusively licensed to TDC by a patent holder, Franklin F. Offner.

The agreement identified four types of apparatus that were subject to royalty: direct-writing oscillographs, amplifiers, electroencephalographs and electric shock therapy devices (Para. 3; A. 22a-23a), and referenced twenty-one United States patents and patent applications. (A. 34a) The agreement also provided for reporting of royalty obligations, requiring periodic payments for sales of the four enumerated types of apparatus sold "under the sublicenses herein granted." (Para. 5; A. 25a-26a) The agreement contained a provision limiting the amount of royalty to be paid to a maximum of $5,000,000 over the course of the entire agreement. (Para. 5(d); A. 26a)

By correspondence dated July 1, 1976, Beckman advised TDC that Beckman no longer was making use of any sublicenses granted, and that it would not make any such use in the future. (A. 6a) The termination provision invoked

by Beckman's notice was paragraph 12(b) of the agreement, which provides:

> (b) If Beckman does not make use of any sublicense granted hereunder, with respect to any patent, claim or field of use, and if Beckman further declares in writing to TDC that it has no wish in the future to use such patents or claim or to engage in such field, then the sublicense granted hereunder shall to that extent only be terminated. (A. 30a)

Since TDC considered Beckman obligated to pay royalties notwithstanding any termination of the sublicense agreement pursuant to paragraph 12(b), Beckman filed its suit for declaratory judgment. (A. 36a-44a)[3] The suit turned upon competing theories of the interpretation of the agreement. On TDC's appeal to the Court of Appeals, the interpretation of the agreement was the main issue. As Judge Bauer wrote for the unanimous panel of the Seventh Circuit:

---

[3] The termination provision of the sublicense agreement had been the subject of earlier litigation between these parties. In 1966, Beckman had filed an action seeking a declaration of invalidity of one of the patents identified in the sublicense agreement. Subsequently, the complaint was amended to include a count regarding the termination provision, based upon ongoing disputes between the parties as to its meaning.

The District Court dismissed the added termination count, on the ground of lack of actual controversy between the parties. The Seventh Circuit affirmed that ruling, but reversed the District Court's denial of Beckman's right as licensee to attack the validity of the patent in issue in light of the then recent decision in *Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969), eliminating the doctrine of licensee estoppel. *Beckman Instruments, Inc.* v. *Technical Development Corporation*, 433 F.2d 55 (7th Cir. 1970). TDC petitioned for certiorari on the question of license estoppel, which petition was denied by this Court. (401 U.S. 976 [1971]). Beckman did not petition on the question of "actual controversy" pertaining to the termination provision.

> In this appeal TDC argues principally that Judge Moran's interpretation of the sublicensing agreement is clearly erroneous. We have little difficulty rejecting this contention. (730 F.2d at 1078; A. 3a)

SUMMARY OF ARGUMENT

This suit involves a question of contract interpretation, and no federal statute is directly implicated by this matter. No unsettled question of federal law is present, nor do the decisions below conflict with any precedents of this Court.

The major issue in this case was the meaning of the termination provision of the agreement as respects Beckman's obligation to make further royalty payments. That issue, the crux of the case, is not the subject of TDC's petition for certiorari, nor could it be since that question does not rise to the level of importance required under Rule 17 of this Court. Rather, TDC is attempting to manufacture an issue for review by now asserting that a secondary question in the suit presents a serious controversy requiring the attention of this Court; i.e., whether Beckman had in fact ceased to use a sublicense under the agreement after its July 1, 1976 representation disavowing such use. TDC claims the resolution of that issue by the courts below constitutes a conflict with one of this Court's precedents.

TDC misapprehends the nature and basis of the District Court and Seventh Circuit decisions. In order to interpret the contractual language regarding termination, the courts below adopted and applied the legal doctrines of equitable estoppel and contributory infringement. Those doctrines were employed as an aid to determine whether Beckman had "made use" of any sublicenses, within the

meaning of paragraph 12(b) of the agreement. In so doing, the courts below stressed factual matters which distinguished the instant matter from the precedent urged by TDC. Rather than rejecting or ignoring any decision of this Court, the relevant precedents were properly considered and applied. Accordingly, no direct challenge to this Court's decisions regarding contributory infringement or the implied license doctrine is presented. The lower courts' rulings are fully supported by the evidence and the law.

ARGUMENT

A. This Case Presents Questions of Importance Only to the Parties to the Sublicense Agreement.

The central issue in this case was not one of patent infringement, direct or contributory. Rather, the issue was whether the sublicense agreement was merely a device to permit a deferred payment of $5,000,000 to TDC by Beckman over time (TDC's position), or whether the agreement permitted cessation of royalty payments once Beckman stopped using the sublicenses (Beckman's position). It was this issue that Judge Marshall decided in Beckman's favor on summary judgment, and which Judge Moran also decided favorably to Beckman after a full evidentiary hearing.

As stated in Judge Moran's Memorandum and Order adopted by the Seventh Circuit, the issue was one of contractual interpretation:

> *This court's task is to interpret an agreement,* in the context of events during May-August, 1961, in accordance with the intent of the parties. (730 F.2d at 1080; A. 7a; emphasis supplied).

The secondary and remaining issue in the case, after decision upon the meaning of the termination clause of the contract, was TDC's contention that Beckman's termination of the agreement was ineffective because it "made use" of a sublicense after notification of the termination of the agreement. The secondary issue, then, was what constituted "making use" of a sublicense. Judge Moran analyzed and gave meaning to the word "use" in the termination clause of the contract by reference and analogy to concepts of patent infringement:

> The issue here is whether Beckman, in selling 9872 couplers, made use of a sublicense because it otherwise would be liable for contributory infringement or for inducing direct infringement. And Beckman cannot be so liable unless someone directly infringed. (730 F.2d at 1085; A. 17a).

In short, Judge Moran used notions of patent infringement to interpret the meaning of a word in a contractual provision. At bottom, he determined, and the Seventh Circuit concurred, that no "use" of a sublicense had occurred through Beckman's sale of certain unpatented accessories. He found not only an absence of contributory infringement, but that purchasers of such articles were led by TDC to believe that they had an "implied license" to use such articles. In the latter regard, the District Court made evident that its reasoning was a particular application of the doctrine of equitable estoppel generally applicable to contract cases:

> An implied license ultimately, however, must rest upon reasonable expectations induced by the patentee. A form of implied contract, it stems from the same legal reasoning which gives rise to the implication from the conduct of the parties of indefinite terms in an otherwise definite contract and to promissory and equitable estoppel. A person cannot induce reliance by another and then change the rules of the game. (730 F.2d at 1086; A. 18a-19a).[4]

---

[4] It should be noted that the Court of Appeals for the Federal Circuit has similarly stated that the doctrine of "implied license" is but a species of the larger doctrine of equitable estoppel:

> One common thread in cases in which equitable estoppel applies is that the actor committed himself to act, and indeed acted, as a direct consequence of another's conduct. See *Dickerson v. Colgrove*, v00 U.S. 578, 580, 25 L.Ed. 618 (1879). Thus, an implied license cannot arise ou' of the unilateral expec-

(footnote continued)

Rather than raising "important and unique problems concerning the extent to which the implied license doctrine impacts patent infringement law" (Pet. at 8), the decisions below were made in the context of an interpretation of a contract, based upon well-established legal propositions, creating no confusion or uncertainty to patent owners or others. Although of importance to the parties, the issue presented simply does not merit review by this Court.[5]

B. The Decisions Below Do Not Conflict with Precedents of This Court, and Were Correctly Decided.

A review of the decisions of the two courts below, rejecting TDC's arguments that Beckman's termination of

(footnote continued)

> tations or even reasonable hopes of one party. One must have bee led to take action by the conduct of the other party. [*Stickle* v. *Heublein*, 716 F.2d 1550, 1559 (Fed. Cir. 1983)]

Judge Moran specifically found that TDC's conduct gave rise to such an estoppel, since equipment for which Beckman later sold accessories "was promoted as versatile and adaptable to a number of applications by the use of [such accessories]." (730 F.2d at 1085; A.17a). The Seventh Circuit, after discussing Judge Moran's legal reasoning on this issue, stated that it found "no fault in this analysis." (730 F.2d at 1079; A.5a).

[5] The Court of Appeals for the Federal Court has recently held that a contract dispute does not arise under the patent laws merely because the subject of the contract is patent rights. *Beghin-Say International Inc.* v. *Ole-Bendt Rasmussen*, 733 F.2d 1568 (Fed. Cir. 1984). So, too, in the instant matter, no unique or important question is raised with regard to patent infringement when an issue of contractual interpretation is involved, even though patents are the subject of the contract.

the sublicense agreement was ineffective, demonstrates no conflict with the applicable precedents of this Court. Thus, even assuming any "impact" upon patent infringement law by the decisions below, there is no basis for this Court's grant of the petition.

TDC relies exclusively upon a 75 year old decision, *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 325 (1909), without mention of the subsequent development of the law in this Court. That decision, concerning the question of contributory patent infringement, was discussed, explained, and placed in its appropriate historical perspective, both in *Aro Mfg. Co. v. Convertible Top Replacement Co.* (Aro I), 365 U.S. 336 (1961) and *Dawson Chemical Co. v. Rohm & Haas Co.*, 448 U.S. 176 (1980). In the latter case, this Court stated:

> In *Leeds & Catlin Co. v. Victor Talking Machine Co.*, 213 U.S. 325, 29 S.Ct. 503, 53 L.Ed. 816 (1909), the Court upheld an injunction against contributory infringement by a manufacturer of phonograph discs specially designed for use in a patented disc-and-stylus combination. Although the disc itself was not patented, the Court noted that it was essential to the functioning of the patented combination, and that its method of interaction with the stylus was what "mark[ed] the advance upon the prior art." Id., at 330, 29 S.Ct., at 504. It also stressed that the disc was capable of use only in the patented combination, there being no other commercially available stylus with which it would operate. (448 U.S. at 190).

This Court later contrasted the *Leeds & Catlin* facts with those in *Carbice Corp. of America v. American Patents Development Corp.*, 283 U.S. 27 (1931) and *Leitch Mfg. Co. v. Barber Co.*, 302 U.S. 458 (1938), in which "staple" articles, suitable for non-infringing uses, had been sold, and no contributory infringement found. Justice Blackman stated:

> Like the record disc in *Leeds & Catlin* or the stoker switch in the *Mercoid* cases, and unlike the dry ice in *Carbice* or the bituminous emulsion in *Leitch*, propanil [the non-patented component sold by defendant] is a nonstaple commodity which has no use except through practice of the patented method. (448 U.S. at 199).

In the decision of the District Court below, the *Leeds & Catlin* opinion was distinguished upon *factual* grounds. The court simply found that "the days when the purchase of a record for a talking machine was a major event are far removed from a market in which complicated equipment is promoted for multiple uses through interchangeable accessories." (730 F.2d at 1086; A. 18) Moreover, the District Court found that the unpatented accessory sold by Beckman after termination of the sublicense was capable of uses with non-infringing devices, including Beckman's newly developed 461-D pre-amplifier. (730 F.2d at 1086; A. 16a-17a) Hence, as this Court did in *Dawson Chemical Co.* v. *Rohm & Haas Co., supra,* the District Court made a factual distinction between the "non-staple" record disc in *Leeds & Catlin* and the "staple" accessory (9872 input coupler) allegedly "used" in the instant matter.

TDC not only attempts to obscure the *factual* reason for the distinguishing of *Leeds & Catlin* as controlling precedent in the decisions below, but also ignores the equitable estoppel issue which provided the basis for the decisions below. Equitable estoppel was *not* at issue in *Leeds & Catlin,* and accordingly that precedent could not be dispositive of the issue of whether Beckman made "use" of a sublicense. On this point, the District Court compellingly summarized the facts:

> The dynograph is a major piece of equipment. Purchasers paid a royalty through the purchase price

> because of the sublicense agreement. The equipment was promoted as versatile and adaptable to a number of applications by the use of 9800 series input couplers. There were no indications of any patent restrictions in the use of any 9800 series input couplers. It would surely have come as some surprise to Northwestern University in 1977 if it had been told that it thereafter was restricted in the use of its equipment to applications which used certain 9800 series input couplers but could not use it for other applications. (730 F.2d at 1085; A. 17a-18a)

No such findings relating to customer expectations induced by the promotion and representations of the patent owner are present in *Leeds & Catlin.*

In short, TDC's dispute is *not* with the rejection of this Court's precedent, but with the District Court's *factual findings* that a) the accessory sold had substantial non-infringing uses, and b) the patented equipment, with which the accessory could be operated, had been promoted to customers as "all-purpose" and adaptable to multiple applications, thereby giving rise to equitable estoppel. Based upon the record below, these factual findings are not "clearly erroneous," and indeed are unassailable. The Seventh Circuit Court of Appeals properly and correctly so affirmed.[6]

---

[6] Under these circumstances, the oft-quoted statement of this Court is applicable:

> A court of law, such as this Court is, rather than a court for correction of errors in fact finding, cannot undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error. *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.*, 336 U.S. 271, 275 (1949).

Accord, Stern and Gressman, *Supreme Court Practice*, 4th Ed., 1969, Sec. 4.14, p. 172.

In an obvious attempt to command the attention of this Court, TDC dramatically asserts that there is "no legal precedent for the Seventh Circuit's decision," and that it cannot be "harmonized" with governing precedent of this Court. (Pet. at 8) That assertion, as indicated above, flies in the face of *Aro I* and *Dawson Chemical, supra.* That assertion also ignores later precedent of this Court, rendered 18 years after *Leeds & Catlin,* on the issue of "implied license":

> Any language used by the owner of the patent or any conduct on his part exhibited to another, from which that other may properly infer that the owner consents to his use of the patent . . . constitutes a license . . . . (*DeForest Radio Telephone Co.* v. *United States,* 273 U.S. 236, 241 [1927]).

The decisions of the Seventh Circuit and District Court below clearly applied that same rule to the facts in this case.[7]

CONCLUSION

The petition raises no new legal issue of general importance in the administration of the patent laws, particularly since the suit was one of contractual interpretation. There is no conflict in decisions or rejection of this Court's precedents. The law is clear, well-established and was, to the extent applicable, correctly applied to the particular facts of this case.

---

[7] Contrary to TDC's assumption that implied licenses can only arise with respect to the maintenance and repair of the purchased products, no such limitation was present or involved in *DeForest Radio Telephone Co., supra.*

It is therefore respectfully submitted that the Petition for Writ of Certiorari should be denied.

Respectfully submitted,

SHELDON KARON
Attorney for Respondent

Of Counsel:

RICHARD L. HORN
THOMAS D. ROSENWEIN
MIRIAM FARKAS
KARON, MORRISON & SAVIKAS, LTD.
5720 Sears Tower
233 South Wacker Drive
Chicago, Illinois 60606
(312) 876-6000

REGINALD K. BAILEY
CLEMENS HUFMANN
MASON, KOLEHMAINEN, RATHBURN & WYSS
20 North Wacker Drive
Suite 4200
Chicago, Illinois 60606

WILLIAM H. MAY
2500 Harbor Boulevard
Fullerton, California 92634